**Whitepaper:**
**A Practical Framework for Boards**
**to address Generative AI**

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# Introduction

Generative AI (Artificial Intelligence) has been recognised across the world as one of the most significant impacts on business and personal life since the advent of the internet.

According to McKinsey & Company (2023) there are six stages of AI development (AI strategy in business: A guide for executives | McKinsey). This is a very interesting read for Directors. As a society, we have reached Stage 3, but there are three other stages which have not yet occurred.

**Stage 1:**      **Simple analytics**, referred to as descriptive intelligence. Companies use dashboards for competitive analysis or to study performance in different parts of the business that are automatically updated. Some have interactive capabilities for refinement and testing.

**Stage 2:**      **Diagnostic intelligence**, which is the ability to look backward at the business and understand root causes and drivers of performance.

**Stage 3:**      **Predictive intelligence**, or being able to anticipate certain scenarios or options and the value of things in the future based on momentum from the past as well as signals picked in the market.

            Because strategic decisions have significant consequences, a key consideration is to use AI transparently in the sense of understanding why it is making a certain prediction and what extrapolations it is making from which information.

            You can then assess if you trust the prediction or not. You can even use AI to track the evolution of the assumptions for that prediction.

Still to come...

**Stage 4:**     **Advising actions** for Board consideration that would be value-creating based on the analysis.

**Stage 5:**     **Delegating certain decision authority** to AI, with constraints and supervision.

**Stage 6:**     **Fully autonomous AI analyses** and decides with no human interaction.

The focus of this Whitepaper is on how Boards can prepare for the leveraging of Stage 3 predictive intelligence, and prepare for the advent of the evolution into the following three stages.

We highlight here some practical guidelines and tools that can provide focus for how a Board could approach this hugely important development.

# The role of Boards in AI

Boards have an inordinate impact on society, organisations and community generally through their choices that can have far reaching influence on the future of society.  The most effective way we have found to describe the role and impact of the Board is:

> *A Board's role is to make the choices that create the future for the communities we serve.*
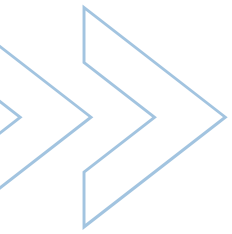


Everything else around governance are the tools we can use to help us do this. Strategy, risk, finance, leadership and all the subtopics covered under governance are all tools to assist the Board to make these Choices that create the Future for the Communities we serve.

So what role should Boards have in the ever expanding and pervasive area of AI?

The Institute of Directors (UK) have provided clear commentary that Boards will be held accountable both legally and ethically for the use or non-use of AI in their organisation, including their use of third parties that use AI (https://www.iod.com/app/uploads/2023/03/IoD-The-AI-in-the-boardroom-3d69e07919bad710b0d29fb309e6d5ce.pdf).

We are also watching a global race to develop specific Regulatory frameworks around the use of AI. In addition Eccles and Vogel (2022) report that "current litigation trends indicate that directors are more likely to face personal liability for AI-supported mishaps as the potential impact on companies becomes clearer. Directors will be exposing the company and themselves to legal liabilities if they fail to uphold their fiduciary duty and mitigate preventable harms from AI systems created or deployed by the companies they govern". (Board Responsibility for Artificial Intelligence Oversight, Harvard Law School Forum on Corporate Governance)

The following framework is based on what many thousands of Boards we have worked with have found to be a useful way of approaching the development of Board and governance impact. I have kept this short, with links to further detail included in the various points below.

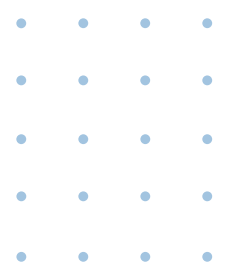# Framework Components for Board Governance of AI

## Structural

1.  Allocate an existing Board committee that will deep dive into AI (ethics, risk, bias and engagement). Many Boards are allocating this responsibility to the Board Committee responsible for cybersecurity, with the caveat that this committee should have an enterprise-wide strategic focus on this. Other Boards have developed a "Champion Group" that has a specific focus on high quality development and monitoring of AI. Microsoft have provided an excellent guideline for this type of committee. See Champion Program Best Practices | Microsoft Learn.

2.  Add AI as a standard Board Agenda to facilitate knowledge and leverage opportunity. This should be done in conjunction with Framework Component 10 'Develop an ongoing annual program'.

## Policy/Compliance/Reporting

3.  Develop a Board endorsed framework for responsible AI governance. There are some good guidelines around this: BSA's Framework, GAO's Risk Framework, and NIST's (National Institute of Standards and Technology USA) AI Risk Management Framework.

4.  Allocate Senior Management responsibility. Consider assigning Senior Management responsibility over AI risk and regulatory compliance (including the company's regulatory risk disclosures relating to AI, if any) to a particular member of management or a management committee. (e.g. Company Secretary/Legal Counsel/Risk Manager).

5.    Compliance Structures: Develop effective management-level AI compliance and reporting structures to provide focused critical analysis of key strategic issues, which may include periodic AI risk assessments and monitoring of high-risk AI systems, as well as written AI policies, procedures, and training. Such policies may include procedures for responding to a material AI-related incident, responding to AI-related whistleblower complaints, and risk management for any vendors that supply the company with critical AI-related resources.

6.    Develop a Board level AI Policy, including Procedures and provide training Examples can be found at ChatGPT Corporate Policy Framework by Jackie Lyons and from Ironclad in their Generative Artificial Intelligence Policy.

7.    Develop Board Briefings on material AI incidents (similar to Clinical Governance or Work Health Safety reports).

8.    Laser focus on Privacy Policy, data use and data retention to reflect emerging AI issues.

## Succession/Development/Evaluation

9    Deep dive into biases and the impact this has on AI and other parts of the organisation. The "big four" of biases are correlation bias, representation bias, measurement bias and disenfranchisement bias.

10.    Develop an ongoing annual program of progressively upskilling the Board from a strategic viewpoint on key issues and opportunities with AI.

11.  Use <u>4Boards.ai Leadership Matrix</u> as a tool to facilitate the development of competence areas for the Board. This tool helps boards map and develop their AI implementation along two dimensions: guiding AI operational capability and supervising AI governance capability. The matrix is accompanied by a set of questions to help boards assess their current and desired level of AI competence.

## Strategy and Risk

12.  NIST have developed an AI Risk Management Playbook to help Boards understand Critical AI uses. See <u>NIST AI RM F Playbook | NIST</u>.

13.  Create new scenarios and test assumptions for Board to gain strategic insight.

14.  Scan for consumer, client, member and community trends, and extrapolate potential strategic issues for Board discussion.

15.  Use AI to test biases regarding populations, client groups and different communities. Explore alternatives to minimise any biases (cognitive or social dynamics) for Board consideration e.g. all people have the right to a healthy life (but what biases do we have regarding diversity, the "hard to get to" communities, those we don't know about etc.).

16.  Prepare for increased regulatory activity which is clearly highlighting the Board's responsibility e.g. USA, UK, Singapore, Hong Kong, European Commission, and this will exponentially increase in the next 12 months. See <u>'Proposal for a Regulation laying down harmonised rules on artificial intelligence' on the European Commission's Shaping Europe's digital future</u>. Develop strategies to identify, manage and leverage associated risk and opportunity.

17. Ensure that innovation and strategic oversight input is inside the boardroom, and compliance is outside the boardroom.

## Shareholder engagement

18. Look for and address biases. See BSA's bias risk management example <u>Confronting Bias: BSA's Framework to Build Trust in AI</u>.

19. Anticipate stakeholder and community AI expectations and address these publicly. See '<u>Toward artificial governance? The role of artificial intelligence in shaping the future of corporate governance</u>' by Michael Hilb in the Journal of Management and Governance for some great questions to ask.

20. Make your Generative AI Framework and Policy public.

# Checklist to support the Board and Company Secretary to get ready for the impact of AI

| | Component | Scheduled | Completed |
|---|---|---|---|
| **Framework Checklist**<br>**for Development of Board Governance of AI** | | | |
| Structural | 1.  Allocate responsibility to an existing Board committee or create a "Champion Group". | | |
| | 2.  Add AI as a standard Board Agenda. | | |
| Policy, Compliance & Reporting | 3. Develop a Board endorsed framework for responsible AI governance. | | |
| | 4. Allocate Senior Management responsibility. | | |
| | 5. Develop effective management-level AI compliance and reporting structures. | | |
| | 6. Develop a Board level AI Policy. | | |
| | 7. Develop Board Briefings on material AI incidents. | | |
| | 8. Review Privacy Policy, data use and data retention to reflect emerging AI issues. | | |
| | 9. Deep dive into biases and the impact this has on AI. | | |

| | Component | Scheduled | Completed |
|---|---|---|---|
| **Framework Checklist**<br>**for Development of Board Governance of AI** | | | |
| Succession, Development & Evaluation | 10. Develop an ongoing annual program of progressively upskilling the Board. | | |
| | 11. Use 4Boards.ai Leadership Matrix. | | |
| | 12. Use AI Risk Management Playbook. | | |
| Strategy & Risk | 13. Create new scenarios and test assumptions. | | |
| | 14. Scan for consumer, client, member and community trends. | | |
| | 15. Use AI to test biases regarding populations, client groups and different communities. | | |
| | 16. Prepare for increased regulatory activity. | | |
| | 17. Ensure that innovation and strategic oversight input is inside the boardroom, and compliance is outside the boardroom. | | |

| Framework Checklist for Development of Board Governance of AI | | | |
|---|---|---|---|
| | Component | Scheduled | Completed |
| **Strategy & Risk** | 18. Look for and address biases. | | |
| **Stakeholder engagement** | 19. Anticipate stakeholder and community AI expectations and address these publicly. | | |
| | 20. Make your Generative AI Framework and Policy public. | | |

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## About Conscious Governance

Conscious Governance is a global, independent advisory service for Boards, CEOs and directors. We provide strategic planning, board governance, leadership, and risk management consulting services.

We work with organisations across virtually all sectors and provide resources, guidance and online programs that help promote strong governance practices. In delivering our services, we inspire greater strategic awareness within an organisation, opening up new ways to better serve the wider community.

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